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Bureau of Agricultural Economics
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THE COTTON SITUATION

This month's issue of The Cotton Situation consists largely of the regular annual outlook report on cotton, first released by the Bureau on November 1 and now slightly revised in keeping with more recent estimates and subsequent developments. Also included is a brief review of developments during recent weeks.

REVIEW OF RECENT DEVELOPMENTS

Little net change has occurred in domestic prices of spot cotton during the past month, following a net advance of about two-thirds of a cent per pound during the preceding month. For the most part, Middling 7/8 inch cotton in the 10 designated markets fluctuated within a few points above and below $18\frac{2}{3}$ cents between October 22 and November 23. The Bureau of Agricultural Economics further reports that, while domestic exports of domestic cotton continue very low, the "free" supply of American cotton has been further reduced by increased Government-loan stocks, and the outlook for the domestic cotton textile industry has been improved by further gains in domestic industrial production and payrolls.

Sales of cotton textiles by domestic manufacturers in the past 4 weeks appear to have equaled or exceeded the relatively high output. The October United States index of industrial production of 96 was the highest for 11 months, and represented the fifth consecutive month in which a gain over the preceding month has been recorded. Weekly data indicated still further increases in the first 3 weeks of November.

The October index of United States cotton consumption, adjusted for seasonal variation, showed a small decline compared with September but was slightly higher than in October last year. Trade reports indicate that activity in the first 3 weeks of November was well maintained and was perhaps 10 to 15 percent above the corresponding period last season. During the first quarter of the present season, domestic mill consumption was less than a year earlier by about 90,000 bales or 5 percent, but the annual rate of consumption was about 15 percent above total consumption in the 1937-38 season.

In most foreign countries, cotton mill activity as a whole appears to have continued on a restricted basis during October and the first 3 weeks of November. For the most part, reports indicate that manufacturers' sales of cotton yarn and cloth continued relatively small. However, evidence of some general improvement has been reported in the European cotton situation since the easing of international political tension at the end of September. In many of the European countries there are indications of at least seasonal gains in mill activity over earlier months. A seasonal increase of trade in the yarn and cloth markets has also been noted. Import buying of American cotton has, however, been retarded in a number of countries by a combination of adverse circumstances.

Spot prices of American cotton in Liverpool continued strong relative to Indian and Brazilian growths during the past few weeks and on November 18 were relatively higher than for about 2-1/2 years. In addition to the lower relative prices of foreign cotton the larger supplies of this cotton relative to American in regular channels of distribution are no doubt also contributing to the reduced exports. The unusually high prices of spot cotton relative to futures contracts have also been unfavorable to exports and to foreign mill takings of American cotton.

In October, exports of American cotton were less than in October last year by 334,000 bales or 42 percent. For the 3 months August through October, the 1,054,000 bales exported were nearly 600,000 bales or 36 percent smaller than a year earlier and the smallest for the period since 1920. Exports, as reported to the New York Cotton Exchange, from August 1 to November 17 were less than in the corresponding period a year earlier by about 850,000 bales or 38 percent.

United States Government loan stocks increased about 1,150,000 bales during the 4 weeks ended November 23 and on that date totaled approximately 9,860,000 bales. Assuming no net change in these stocks during the remainder of the season, the world supply of "free" American cotton for the current season would total about one-eighth less than for last season. On the other hand, the latest estimates indicate a world supply of foreign cotton practically the same as in 1937-38.

THE COTTON OUTLOOK FOR 1939
(Revised as of November 25)

Summary

World Cotton Supply at New High

The 1938-39 world supply of commercial cotton is now (late November) expected to be about 50,900,000 bales, which is slightly larger than the record supply of the previous season and 28 percent greater than the 10-year (1927-28 to 1936-37) average. This would be the third consecutive season in which world supplies reached a new high. The world carry-over of cotton of 22,600,000 bales on August 1, 1938 was 8,800,000 bales larger than a year earlier and 4-1/4 million bales larger than the previous peak of 1932. This marked increase in carry-over, however, is largely offset by a sharp reduction in the United States crop and some decline in foreign production.

The world supply of American cotton is expected to total nearly 25.7 million running bales which is materially larger than that of the previous season and nearly one-fifth larger than the 10-year average, but 2 percent less than the record supply of 1932-33. The estimated 1938 domestic production is 35 percent less than the record harvest of last season and 8 percent below average, yet the reduction this year was less than the increase in carry-over. At the beginning of the current season, the world carry-over of American cotton totaled 13.65 million bales compared with 6.2 million bales a year earlier. It was 62 percent above average and considerably larger than the previous peak reached in 1932.

Despite a prospective decline in foreign production of commercial cotton, the indicated 1938-39 world supply of foreign cotton is now estimated at 25,200,000 bales of 478 pounds net weight. This is slightly smaller than the record supply of the previous season, 38 percent above the 10-year average, and nearly two-thirds larger than in 1932-33. The world carry-over of 9,000,000 bales of foreign cotton on August 1, 1938 was one-fifth larger than the record carry-over a year earlier, 56 percent above average, and three-fourths larger than in 1932. Although the 1938-39 foreign production of commercial cotton, now estimated at 16.25 million bales, is 10 percent less than the record crop of last season, it is 29 percent above the 10-year average and 55 percent larger than the 1932-33 crop. Present estimates indicate that much of the decrease in the 1938-39 production will result from a sharp decline in the Chinese crop and a greatly reduced Egyptian crop. While a substantial proportion of the net increase in foreign production compared with either the 10-year average or with 1932-33 has occurred in the larger producing countries, the increase which has resulted from the marked expansion in many other countries has also been important.

Should the acreage planted to cotton in the United States next spring total about the same as in 1938, this acreage with abandonment, yields per acre and bale weights equal to the average for the last 10 and 5 years (ending with 1937) would give a 1939 crop about 800,000 to 1,600,000 running bales smaller than the present estimate of the current season's production. Although it seems probable that the world carry-over of American cotton on August 1, 1939,

will be somewhat larger than a year earlier, such a crop would probably result in a 1939-40 world supply of American cotton not greatly different from that of the present season. The indications are that the carry-over of foreign cotton on August 1, 1939 may be somewhat smaller than or possibly about the same as at the beginning of the present season. It is quite possible that foreign production in 1939-40 may also be somewhat smaller than in the current season.

World Cotton Consumption Shows Material Decline

Total world mill consumption of 27,565,000 bales of cotton in 1937-38 was 10 percent below the record consumption of the previous season but was 2,000,000 bales larger than the 10-year (1927-28 to 1936-37) average and the third largest in history. Of the 3,100,000-bale decline in world consumption last season, American cotton accounted for about 2,200,000 bales and foreign cotton for less than 1,000,000 bales.

Partly as a result of larger supplies and lower prices of American cotton relative to foreign growths, last season's consumption of American cotton outside of the United States represented a slightly larger proportion of the total mill consumption of all growths than in the previous season. But, despite this, the quantity of American cotton consumed in foreign countries last season was slightly lower than in the previous season and the smallest since 1923-24. It was 27 percent below average. Largely because of the marked recession in general business conditions in the United States, domestic consumption of American cotton was smaller by nearly 2,200,000 bales or 28 percent than the record consumption of the previous season and was 6 percent smaller than the 10-year average.

The decline of about 1,500,000 bales or 56 percent in cotton consumption in China last season, chiefly because of the conflict with Japan, was partly offset by increases in mill consumption of foreign cotton in Russia, India, and a few other countries. In most other foreign countries, consumption for the year ended July 31, 1938 was not materially below that of the preceding season despite a marked decline during the latter part of 1937 and the first half of 1938.

Cotton consumption in the United States during the first 3 months of the current season averaged considerably above the average for 1937-38. Furthermore, stocks of cotton textiles in channels of distribution were considerably below a year earlier. These factors, together with an expected improvement in domestic business conditions and consumer incomes, should result in a substantially larger United States consumption of cotton in 1938-39 than occurred in the past season.

In most foreign countries, however, cotton consumption in the early part of the current season was somewhat below the average for the last season and mill activity was being further curtailed. This and prospects for little improvement in general economic conditions in foreign countries during the first part of the current season and increased restrictions on cotton consumption in Japan make it seem probable that the total consumption of both American and other cotton in foreign countries would be lower during the 12 months ended July 1939 than in the past season. The European political crisis makes the cotton and cotton-textile outlook especially uncertain, but it is expected that an increase in United States consumption of American cotton may about offset

the prospective decline in the foreign consumption of this cotton. It seems probable that the 1938-39 foreign and, in turn, the world consumption of other cotton (other than American) probably will not exceed, and may be somewhat smaller than, that of 1937-38.

Cotton Prices Decline - Gross Farm Returns from Cotton Decrease

The weighted average price of 8.4 cents per pound received by domestic cotton producers for lint in the 1937-38 season was 3.9 cents or 32 percent less than in the previous season, the lowest since 1932-33 and one-third less than the average for the 10 years ended July 1937. In the first quarter of the present season, farm prices of lint cotton averaged slightly less and cottonseed approximately 11 percent more than in the 12 months ended July 1938. Should prices continue at about present levels during the next few months, this together with the fact that the quantities of cotton and cottonseed available for marketing during the current season are estimated at about one-third less than last season, would result in the gross farm returns from the 1938 cotton crop being materially less than the comparatively large returns received from the large 1937 crop and the smallest since 1932.

Farmers' 1938-39 returns from the disposition of their cotton crop will be supplemented by about \$265,000,000 of Government payments with respect to cotton, compared with \$72,000,000 of such payments last season. Nevertheless, the total farm returns from the 1938 cotton crop, including Government payments with respect to cotton, may be substantially below those of the previous season and considerably smaller than the 10-year average.

With the large 1937 crop and despite substantially lower prices, total farm returns of \$795,000,000 from lint cotton during the past marketing season were \$31,000,000 larger than in the previous season, the largest since 1929-30, and only 1 percent less than the 10-year average. Cottonseed prices were also much below those of 1936-37 and the lowest since 1933-34. Gross farm returns of \$123,000,000 from cottonseed, while lower than in the previous year, despite the large marketings, were larger than in any other year since 1929-30 and 19 percent larger than average.

The combined gross farm returns from cotton and cottonseed in 1937-38, excluding Government payments, were slightly larger than in the previous season, the largest in 8 years, and somewhat larger than the 10-year average. Including Government payments with respect to cotton, these returns were a little less than in 1936-37 but more than twice as large as in 1932-33 and considerably above average.

SUPPLY

World Carry-Over Greatly Increased: Reaches New High

The world carry-over of 22,600,000 bales of all cotton at the beginning of the 1938-39 season was 3,800,000 bales or about 64 percent larger than a year earlier, nearly one-fourth larger than the previous record carry-over of August 1, 1932 and nearly three-fifths greater than the 10-year (1927-36) average. A large proportion of the increase in total stocks during the 1937-38 season was accounted for by a rise of 7.4 million bales or 119 percent in American cotton, although the carry-over of foreign growths increased 1,400,000 bales or 19 percent. The approximately 13.65 million bales of American cotton on hand throughout the world on August 1 last was considerably larger than the previous high

reached in 1932 and 62 percent larger than the 10-year average. The large increase in the stocks of foreign cotton during the past season (largely because of gains in sundry growths) raised such stocks above the record high of a year earlier and resulted in a total carry-over of foreign cotton which was 56 percent larger than the 10-year average.

The exceptionally large increase in the stocks of American and foreign cotton in the 1937-38 season was chiefly the result of the record production of these growths, the marked recession in general business activity and its effect on cotton consumption, the disrupted economic conditions in Japan and China, and the further impetus for the substitution of synthetic fibers for cotton because of nationalistic and military activities. In view of present prospects for consumption and production in 1938-39, it seems probable that the world carry-over of American cotton on August 1, 1939 will increase somewhat. The carry-over of foreign cotton seems likely to be about the same as or somewhat smaller than on August 1, 1938.

Cotton, commercial: World carry-over by growths, specified periods

Season beginning August 1	Egyptian	Indian	Sundry growths	Total foreign	American	All growths
Average	1,000 bales 1/	1,000 bales 1/	1,000 bales 1/	1,000 bales 1/	1,000 bales 1/	1,000 bales 1/
1927-28 to 1936-37	1,110	2,583	2,067	5,760	3,454	14,214
1932-33	1,446	1,883	1,744	5,073	13,263	18,336
1933-34	1,088	2,534	1,685	5,307	11,809	17,116
1934-35	1,079	3,343	2,412	6,839	10,701	17,540
1935-36	327	2,494	2,710	6,031	9,041	15,072
1936-37	804	2,814	3,033	6,651	6,998	13,649
1937-38	701	3,209	3,621	7,531	6,235	13,766
1938-39 2/	1,095	3,226	4,639	8,960	13,652	22,612
1938-39 as per- centage:	Percent	Percent	Percent	Percent	Percent	Percent
of average	98.6	124.9	224.4	155.6	161.5	159.1
of 1937-38	156.2	100.5	128.1	119.0	219.0	164.3

Compiled from reports of the New York Cotton Exchange Service.

1/ American in running bales (counting round as half bales) and foreign in bales of approximately 478 pounds net. 2/ Preliminary.

World Production Greatly Decreased Largely Because of Decline
in the United States

The world production of commercial cotton for the current season is expected in late October to be about 28,250,000 bales, which is approximately 8,300,000 bales or almost one-fourth less than the record production of 1937-38. Such a crop, however, would be about 10 percent larger than the 10-year (1927-36) average and the third largest in history. On the basis of present estimates,

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approximately three-fourths of the decrease in comparison with last season would be accounted for by a decrease of 6,400,000 bales in the United States crop.

The 1938 United States crop which according to the November estimate of 12,137,000 bales of 478 pounds net is expected to be equivalent to about 12,000,000 running bales, including an allowance for the city crop. This is more than one-third smaller than the record 1937 crop and the smallest, with two exceptions (1934 and 1935), in 15 years. It is 1,100,000 bales or 8 percent less than the 10-year average. The marked decrease in the current American crop as compared with that of 1937 is accounted for by a reduction of about one-sixth in the indicated yield per acre and one-fifth in acreage. The rather sharp decline in the 1938 harvested acreage reduced it to one-fourth less than the 10-year average and to the smallest figure since 1900. While the indicated average United States yield per acre is 47 pounds less than in 1937, it is higher than any other year since 1898 and 22 percent higher than the 10-year average yield. Although insect damage was greater than in the 2 preceding years, the high indicated yield of the current season, like that of those years, is probably largely accounted for by the use of more productive land and improved cultural practices.

The production of commercial cotton in foreign countries in 1938-39 is expected (in late November) to total about 16,250,000 bales of 478 pounds net. This is approximately 1,900,000 bales less than the record crop of the past season but is the third largest in history and is 3,700,000 bales or nearly 30 percent larger than the 10-year average. The prospective decrease in the current crop in comparison with the 1937-38 production is largely accounted for by expected large decreases in China and Egypt, and small decreases in northern Brazil and a number of the smaller producing countries. These same countries, together with Russia, account for a large proportion of the increase over the 10-year average. Should the total 1938-39 foreign production decline, as is now expected, the average rate of increase in foreign production since 1932 would be greatly reduced. But in spite of this, the annual rate of increase in the 6-year period, 1932-38, would average nearly 1 million bales. During the preceding 10 years, the annual rate of increase was 0.3 million bales and in the 25 years ending with 1932-33 was less than 0.2 million bales. The lower prices received for the 1937 cotton crop in most foreign countries and the unsettled conditions in China are important factors that have at least temporarily halted the marked increase in foreign production that has been under way since 1932.

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Cotton, commercial: World production by growths, specified periods

Season beginning Aug. 1	: Egyptian :	: Indian :	: Sundry growths :	: Total foreign :	: American :	: All kinds :
	: 1,000 bales 1/ :	: 1,000 bales 1/ :	: 1,000 bales 1/ :	: 1,000 bales 1/ :	: 1,000 bales 1/ :	: 1,000 bales 1/ :
Average 1927-28 to 1936-37	1,556	4,624	6,395	12,575	13,110	25,685
1932-33	1,038	4,110	5,352	10,500	12,961	23,461
1933-34	1,739	4,834	6,781	13,354	12,712	26,066
1934-35	1,523	4,198	7,753	13,474	9,576	23,050
1935-36	1,758	5,323	8,744	15,825	10,495	26,320
1936-37	1,863	5,661	10,952	18,476	12,375	30,851
1937-38	2,259	2/4,942	10,963	18,164	18,412	36,576
1938-39 3/	1,596	2/4,880	9,774	16,250	12,000	28,250
	: <u>Percent</u>	: <u>Percent</u>	: <u>Percent</u>	: <u>Percent</u>	: <u>Percent</u>	: <u>Percent</u>
1938-39 as per- centage of:						
average	102.6	105.5	152.8	129.2	91.5	110.0
1937-38	70.7	98.7	89.2	89.5	65.2	77.2

Compiled from reports of the New York Cotton Exchange Service.

1/ American in running bales (counting round as half bales) and foreign in bales of approximately 478 pounds net.

2/ Excludes Burma.

3/ Preliminary.

Should the referendum held under the provisions of the Agricultural Adjustment Act of 1938 show that two-thirds or more of the cotton growers favor marketing quotas in 1939, acreage allotments will again be made to individual producers as in 1938. Should allotments, if made, be about the same as the total of 27.4 million acres allotted in 1938 and should farmers plant the same proportion of their allotment, next year's acreage would be approximately the same as in 1938. Such a planted acreage with abandonment, yields per acre and bale weights equal to the average for the 10 years, 1928-37, would give a crop (including an allowance for city crop) of 10-1/3 million running bales, and with averages equal to the 5 years 1933-37, 11.2 million bales.

The outlook with respect to cotton production in foreign countries is uncertain. The low prices being received for the current crop in most countries and the possibility that in many countries other enterprises may prove considerably more remunerative relative to cotton production than in most of the past 5 years, may result in some reduction in the 1939-40 cotton acreage.

Cotton Outlook

World Supply Again Reaches New High

The record world carry-over on August 1, together with the prospective 1938-39 production, gives an indicated world supply of all cotton of 50,900,000 bales. This is about 500,000 bales larger than the 1937-38 supply and 11,000,000 bales or 28 percent larger than the 10-year, 1927-28 to 1936-37 average. A supply such as is now indicated would result in the world supply reaching a new record high for the third consecutive year. Present (late November) estimates indicate that an increase ^{over the previous season} of 1,000,000 bales in the supply of American is partially offset by a small decline in the supply of foreign cotton. In comparison with the 10-year average (1927-36), however, the indicated supply of American cotton for the current season shows an increase of 4,100,000 bales, whereas the supply of foreign cotton, as now estimated, shows an increase of 6,900,000 bales.

The 1938-39 supply of American cotton is now estimated at 25,650,000 running bales. While this is 4 percent larger than last season's supply, and nearly one-fifth larger than the 10-year average, it is nearly 600,000 bales less than the record supply of 1932-33. On November 23, approximately 9,860,000 bales of the indicated total 1938-39 world supply of American cotton were reported as being held as collateral against Government loans on cotton. The deduction of such stocks from the indicated total world supply would give a supply of so-called "free" American cotton about 12 percent smaller than the supply of such cotton in the preceding season and much smaller than the 10-year average. Present market prices in relation to the 1938-loan values, together with an increase of 1,150,000 bales in the reported loan stocks during the 4 weeks ended November 23, and the fact that a considerable proportion of the 1938 crop is still in the possession of farmers, suggest that the supply of "free" American cotton may be further reduced by a substantial quantity.

The estimated 1938-39 world commercial supply of foreign grown cotton, of 25,200,000 bales, is 2 percent smaller than that of last season, 6,900,000 bales or 36 percent above the 10-year (1927-28 to 1936-37) average and 9,600,000 bales or 61 percent larger than in 1932-33. A supply such as now indicated would make the first year since 1931-32 that the supply of foreign cotton has shown a decline in comparison with the preceding season.

By far the greater part of the increase in the supply of foreign cotton in the last 5 or 6 years has occurred in sundry growths (foreign cotton other than Indian and Egyptian). A considerable part of this increase, in turn, has been due to increased production in Russia, where there has been an approximately corresponding increase in mill consumption. Supplies of Brazilian cotton have also increased greatly during the last several years as has the supply of cotton grown in many of the smaller producing countries. The production and supply of Chinese cotton increased greatly between 1932 and 1936 but has since declined materially.

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Cotton, commercial: World supply by growths, specified periods

Season beginning Aug. 1	: Egyptian	: Indian	: Sundry	: Total	: American	: All
	: :	: :	: :	: foreign:	: :	: kinds
	: 1,000	: 1,000	: 1,000	: 1,000	: 1,000	: 1,000
Average 1927-28 to 1936-37	: <u>bales 1/</u>	: <u>bales 1/</u>	: <u>bales 1/</u>	: <u>bales 1/</u>	: <u>bales 1/</u>	: <u>bales 1/</u>
.....	: 2,666	: 7,207	: 8,462	: 18,335	: 21,564	: 39,899
1932-33	: 2,485	: 5,994	: 7,094	: 15,573	: 26,224	: 41,797
1933-34	: 2,829	: 7,368	: 8,464	: 18,661	: 24,521	: 43,182
1934-35	: 2,604	: 7,546	: 10,163	: 20,313	: 20,277	: 40,590
1935-36	: 2,586	: 7,817	: 11,453	: 21,956	: 19,536	: 41,392
1936-37	: 2,667	: 8,475	: 13,985	: 25,127	: 19,373	: 44,500
1937-38	: 2,960	: 2/8,151	: 14,584	: 25,695	: 24,647	: 50,342
1938-39 3/	: 2,691	: 2/8,106	: 14,413	: 25,210	: 25,652	: 50,862
1938-39 as per-	: <u>Percent</u>	: <u>Percent</u>	: <u>Percent</u>	: <u>Percent</u>	: <u>Percent</u>	: <u>Percent</u>
centage of :	: :	: :	: :	: :	: :	: :
average	: 100.9	: 112.5	: 170.3	: 137.5	: 119.0	: 127.5
1937-38	: 90.9	: 99.4	: 98.8	: 98.1	: 104.1	: 101.0

Compiled from reports of the New York Cotton Exchange Service.

1/ American in running bales (counting round as half bales) and foreign in bales of approximately 478 pounds net.

2/ Excludes cotton produced in Burma.

3/ Preliminary.

Although prospects point to some increase in the carry-over during the current season, the total world supply of cotton for 1939-40 may not be greatly different from that of the present season. For reasons already mentioned (see production section), there is some possibility that the 1939-40 foreign acreage may be slightly below 1938-39. While the 1939 United States acreage may be about the same as in 1938, average yields per acre might easily result in a crop considerably smaller than that of the current season.

Consumption

World Mill Consumption Below Average

World cotton consumption in 1937-38 of 27,565,000 bales was 10 percent less than the record consumption last season but 8 percent more than the average for the 10 years ended with 1936-37. World consumption of 10,930,000 bales of American cotton was 16 percent less than a year earlier and 17 percent less than the 10-year average. In the United States, consumption of American cotton decreased about 2,200,000 bales or 28 percent from the new high record for the preceding season. In foreign countries, however, consumption of American cotton was about the same as in the previous season, but was about 27 percent less than

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average. World consumption of cotton other than American in 1937-38 was about 16,635,000 bales, which was about 5 percent less than in the previous season, but was about one-third more than the 10-year average. Although consumption of Indian and Egyptian cotton has increased in recent years, most of the substantial increase in consumption of foreign cottons since 1932-33 has been in sundry growths. Last season, however, consumption of Chinese cotton in China was down about 1,500,000 bales or more than 50 percent from the record consumption of the previous season, and this drop was nearly double the decline in the world consumption of foreign cotton. Consumption of other sundries cotton continued to increase and sundry cottons other than Brazilian, Chinese, and Russian constituted, in the aggregate, about a fifth of the total increase in sundries for 1937-38, as compared with the 10-year average.

Cotton: Mill consumption in the world

Season beginning August 1 :	United States			Foreign countries			World		
:	American	Foreign	Total	American	Foreign	Total	American	Foreign	Total
:	bales	bales	bales	bales	bales	bales	bales	bales	bales
1927-28 :	1/	1/	1/	1/	1/	1/	1/	1/	1/
to									
1936-37 :	5,973	193	6,166	7,264	12,125	19,389	13,237	12,318	25,555
:									
1933-34 :	5,533	147	5,700	8,227	11,675	19,902	13,780	11,822	25,602
1934-35 :	5,241	120	5,361	5,965	14,162	20,127	11,206	14,282	25,488
1935-36 :	6,221	130	6,351	6,282	15,075	21,357	12,503	15,205	27,708
1936-37 :	7,768	182	7,950	5,325	17,714	23,039	13,093	17,596	30,689
1937-38 2/ :	5,616	132	5,748	5,314	16,503	21,817	10,930	16,635	27,565
:	1937-38 as percentage of 10-year average and of 1936-37								
10-yr. av :	94.0	68.4	93.2	73.2	136.1	112.5	82.6	135.0	107.9
1936-37 :	72.3	72.5	72.3	99.8	93.2	94.7	83.5	94.5	89.8

1/ American cotton in running bales and foreign in equivalent bales of 478 pounds net weight.

2/ Preliminary.

Bureau of Agricultural Economics. Compiled from reports of the New York Cotton Exchange Service.

In the United States, the decrease in industrial activity, employment, payrolls, and general purchasing power, which began in the late summer and early fall of 1937, was an important factor in the sharp reduction in domestic and in world consumption of American cotton. But large stocks of cotton goods in channels of distribution in the United States at the beginning of last season also tended to restrict mill sales of unfinished cloth and yarn.

In foreign countries, the recession in business was not nearly so pronounced and came later than in the United States. In many of these countries, armament manufacturing helped to sustain consumer purchasing power and mill consumption of cotton. But military operations in China resulted in a drastic reduction of cotton consumption there and in Japan during the latter part of the season. Increased production of rayon yarn and staple fiber, especially in Germany, Italy, and Japan displaced considerable cotton and resulted in a smaller consumption of all growths.

On the basis of present conditions, total world consumption in 1938-39 is not expected to exceed materially that for last season and may be considerably smaller. Present indications are that consumption of American cotton in the United States will increase during 1938-39 but this will be largely offset by decreases in the use of American in Europe and Japan. World consumption of foreign growths may be about equal that for last season. Information now available points to decreases in Japan and in Europe, except in Russia, but these may be counter-balanced by a substantial increase in Chinese consumption and some further expansion in India, Russia and in a few other less important cotton-consuming countries.

United States Consumption Expected to Increase in 1938-39

Consumption of about 5,800,000 bales of cotton in the United States in 1937-38 was the smallest since 1934-35. It was 28 percent less than the unusually large consumption in the previous season but only 7 percent less than the average for the 10 years ended with 1936-37. Although consumer-buying of cotton textiles decreased during the 1937-38 season, stocks of finished goods in channels of distribution are now considerably smaller than a year ago. And with prospects for increased industrial activity and payrolls, larger cloth sales by mills are expected in 1938-39 than in the previous season. Mill activity for the first 3 months of the current season was substantially above the low point reached in the last half of the previous season and above the average for the previous season but was below the comparatively high level for the corresponding months a year earlier. On the basis of these conditions, the probabilities are that consumption in the United States in 1938-39 will exceed that for last season, and may exceed the 10-year average.

Foreign Consumption Expected to Decrease Further in 1938-39

Total mill consumption in foreign countries of about 21,800,000 bales in 1937-38 was 5 percent less than in the previous season but about one-eighth more than the average for the 10 years ended with 1936-37. Consumption of 5,300,000 bales of American cotton outside the United States last season was approximately the same as in 1936-37 but 27 percent less than the 10-year average. Total consumption other than American cotton in these countries of 16,500,000 bales was 7 percent less than in the previous season but more than one-third larger than average. American cotton was 24 percent of the total consumption outside the United States in 1937-38, against 23 percent in the previous year and 37 percent during the 10-year period 1927-36. Increased competition from rayon has reduced the total consumption of cotton, especially in some of the most important cotton-consuming countries but substitution of foreign growths for American has accounted for the sharply reduced proportion of American cotton used in foreign mills during recent years.

Total cotton consumption in foreign countries in 1938-39 is expected to be somewhat smaller than last season but the outlook in both Europe and the Orient is very uncertain.

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Cotton Outlook

Cotton: Mill consumption in principal foreign regions

Season beginning:	Europe			Orient			Elsewhere		
AUG. 1	American	Foreign	Total	American	Foreign	Total	American	Foreign	Total
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	bales	bales	bales	bales	bales	bales	bales	bales	bales
Average 1927-28 to 1936-37	1/	1/	1/	1/	1/	1/	1/	1/	1/
1933-34	5,143	5,247	10,390	1,874	5,995	7,869	247	883	1,130
1934-35	5,633	5,043	10,676	2,321	5,779	8,100	273	853	1,126
1935-36	3,680	6,055	9,735	2,032	7,009	9,041	253	1,098	1,351
1936-37	4,258	6,708	10,966	1,757	7,264	9,021	267	1,103	1,370
1937-38 ^{2/}	3,596	7,868	11,464	1,420	8,269	9,689	309	1,277	1,586
	3,698	7,975	11,673	1,322	7,085	8,407	294	1,443	1,737
	1937-38 as percentages of 10-year average and of 1936-37								
10-yr. av.	71.9	152.0	112.3	70.5	118.2	106.8	119.0	163.4	153.7
1936-37	102.8	101.4	101.8	93.1	85.7	86.8	95.1	113.0	109.5

Compiled from reports of the New York Cotton Exchange Service.

1/ American cotton in running bales and foreign in equivalent bales of 478 pounds net weight.

2/ Preliminary.

Europe. - Total consumption of cotton in Europe during 1937-38 was about 11,700,000 bales or slightly more than the unusually large consumption in the previous season and about 12 percent more than the 10-year average. Consumption of American cotton increased a little in 1937-38 but was 23 percent less than average. Consumption of foreign cotton was up slightly from the previous season and about 52 percent more than average. Exports from the United States to European countries increased substantially in 1937-38 and European stocks of American cotton at the beginning of the current season were considerably larger than a year earlier. Rayon is expected to displace additional quantities of cotton this season, since forced substitutions are likely to continue in some of the major cotton-consuming countries. Present indications are that consumption of cotton, particularly American in Europe in 1938-39 will not exceed that for the previous season, and it may be considerably smaller.

Cotton: Mill consumption in Europe

Season beginning Aug. 1	United Kingdom			Continent			Continent, excluding Russia		
	American	Foreign	Total	American	Foreign	Total	American	Foreign	Total
	bales	bales	bales	bales	bales	bales	bales	bales	bales
Average 1927-28 to 1936-37	1/	1/	1/	1/	1/	1/	1/	1/	1/
1933-34	1,403	1,256	2,659	4,230	3,787	8,017	4,150	1,902	6,052
1934-35	941	1,650	2,591	2,739	4,405	7,144	2,704	2,556	5,260
1935-36	1,295	1,541	2,836	2,963	5,167	8,130	2,874	2,805	5,679
1936-37	1,150	1,887	3,037	2,446	5,981	8,427	2,446	2,833	5,279
1937-38 2/	1,144	1,481	2,625	2,554	6,494	9,048	2,554	3,008	5,562
1937-38 as percentages of 10-year average and of 1936-37									
10-yr. av.	83.6	112.4	97.7	67.7	165.3	117.5	70.4	144.7	97.5
1936-37	99.5	78.5	86.4	104.4	108.6	107.4	104.4	106.2	105.4

Compiled from the reports of the New York Cotton Exchange Service.

1/ American cotton in running bales and foreign in equivalent bales of 478 pounds net weight.
2/ Preliminary

In the United Kingdom, total consumption of 2,600,000 bales in 1937-38 was 16 percent less than in the previous year and about 2 percent smaller than the 10-year average. American cotton was 44 percent of the total in 1937-38, against 38 percent in the previous season and 51 percent during the 10-year period ended with 1936-37. British exports of cotton cloth during 1937-38 were 21 percent less than the preceding season and 36 percent smaller than the 10-year average. Although cotton-textile exports may increase a little in 1938-39, they were down for the first quarter of the season and there is little hope now for a substantial improvement over the total for last season. Sales of cotton textiles within the United Kingdom in 1937-38 were fairly well sustained but some concern is expressed in recent reports about sales in the domestic market during 1938-39. Considering prospects for both exports and for the home market, early-season indications are for total cotton consumption not likely to exceed that for last season but American cotton may share a somewhat smaller percentage of the total than in 1937-38.

On the Continent of Europe, total mill consumption was 9,000,000 bales in 1937-38, or about 7 percent larger than that for 1936-37 and 18 percent more than the 10-year average. Consumption of foreign cotton has increased substantially, whereas consumption of American has decreased during recent years. Consumption of American cotton was 2,550,000 bales in 1937-38 or 28 percent of the total, against 23 percent in the previous year and 49 percent during the 10 years ended with 1936-37. Cotton consumed on the Continent of Europe, except in Russia, is nearly all imported. Excluding Russia, the consumption of American cotton on the Continent was 46 percent of the total last season, or about the same as in 1936-37 and compared with an average of 64 percent during the 10 years 1927-36.

It seems probable that total consumption of cotton in Europe would have been considerably larger last season than in other recent years, had not substantial quantities of rayon been used in clothing and household articles in these countries. While rayon has been a factor, the use of foreign cotton has accounted for most of the decline in the consumption of American cotton. Special trade arrangements between certain importing countries and a few foreign cotton producing countries, during the last few years, tended to increase the use of foreign cotton relative to American in these importing countries. But it seems likely that even without these arrangements almost all of the substantially increased supplies of foreign growths would have found their way into world mills, although prices received by producers of the growths involved in barter arrangements probably would have been somewhat less favorable.

The situation on the Continent of Europe is currently so uncertain that the outlook for cotton consumption there cannot be stated with much hope of accuracy. At best, however, there seems little prospect for an increase in the total consumption of cotton in continental Europe in 1938-39 over 1937-38.

The Orient. - Mill consumption of only 3,400,000 bales of cotton in the Orient was about 1,200,000 bales less than in the previous season but about 500,000 bales more than the 10-year average. Consumption of American cotton was slightly smaller than in the previous season and 30 percent less than the 10-year average. Most American cotton consumed in the Orient is utilized in Japanese mills, since those in China and India mainly use native cotton. In 1937-38 there was a slight decrease in the consumption of American cotton in Japanese mills and this was only partly offset by a large percentage but small actual increase in consumption by Indian mills. Consumption of foreign growths decreased about 240,000 bales in Japan and 1,500,000 bales in China during 1937-38 as compared with the previous season. Despite the military disturbances in China, consumption in that country is expected to increase in 1938-39 but is likely to be substantially less than in 1936-37, and total consumption in the Orient in 1938-39 may be almost equal to that for 1937-38.

In Japan, the consumption of about 3,500,000 bales in 1937-38 was about 10 percent less than the record consumption in 1936-37 but 3 percent more than the 10-year average. Consumption of American cotton decreased somewhat and represented about 35 percent of the total or about the same as in the previous season and 47 percent for the 10 years 1927-36. Indian cotton is still the principal competitor of American cotton in Japan but imports of sundries have increased substantially in recent years, comprising 30 percent of the total in 1937-38, against a 10-year average of 8 percent.

Japan, in recent years, has become the world's leading producer of rayon, and Government decrees issued in the summer of 1938 apparently require the use of rayon in most textiles for consumption in Japan and in other areas under Japanese control. This would seem to indicate that considerably more cotton may be displaced by rayon in 1938-39 than in other recent years. Cotton

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Cotton Outlook

textile exports from Japan slumped during the late summer and fall months, and although some increase from present low levels is anticipated, total cloth exports probably will be smaller in 1938-39 than for last season. These, along with severely reduced stocks of all growths of cotton in Japan and current shortages of foreign exchange, seem likely to hamper consumption this season, and the total is likely to be substantially less than last season.

Cotton: Mill consumption in the Orient

Season :	Japan :			China :			India :		
beginning:	Japan :			China :			India :		
Aug. 1 :	American:	Foreign:	Total:	American:	Foreign:	Total:	American:	Foreign:	Total:
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	bales	bales	bales	bales	bales	bales	bales	bales	bales
	1/	1/	1/	1/	1/	1/	1/	1/	1/
Average :									
1927-28 :									
to :									
1936-37 :	1,438	1,638	3,076	363	1,992	2,355	68	2,064	2,132
1933-34 :	1,857	1,432	3,289	423	1,981	2,404	41	2,061	2,102
1934-35 :	1,737	1,911	3,648	247	2,313	2,560	39	2,308	2,427
1935-36 :	1,619	1,930	3,549	83	2,358	2,441	34	2,454	2,480
1936-37 :	1,367	2,514	3,881	21	2,747	2,768	13	2,450	2,463
1937-38 :	1,209	2,276	3,485	16	1,214	1,230	53	2,814	2,867
	1937-38 as percentages of 10-year average and of 1936-37								
10-yr.av.:	84.1	138.9	103.3	4.4	60.9	52.2	77.9	136.3	134.5
1936-37 :	88.4	90.5	89.8	76.2	44.2	44.4	407.7	114.9	116.4

1/ American cotton in running bales and foreign in equivalent bales of 478 pounds net weight.

2/ Preliminary.

Compiled from the reports of the
New York Cotton Exchange Service.

In China, mill consumption of growths other than American, principally Chinese cotton, decreased to about 1,230,000 bales in 1937-38, which was less than half as much as the record consumption in the previous year and less than two-thirds of the 10-year average. Consumption of American cotton continued very small and substantially less than the 10-year average. On the basis of present conditions in China, total consumption is expected to increase in 1938-39 but it is likely to be much less than the peak consumption for 1936-37 and somewhat less than the 10-year average. Consumption of American cotton will probably continue small.

In India, total mill consumption of 2,870,000 bales during 1937-38 was about 16 percent more than in the previous year and about a third larger than the 10-year average. Since displacements of imported cotton textiles by the output of Indian mills is expected to continue, total mill consumption in India in 1938-39 will probably be at least as large as in the previous season.

Other countries. - Foreign countries outside Europe and the Orient consumed about 1,740,000 bales in 1937-38, which was the largest on record and about 54 percent more than the 10-year average. Consumption of American cotton, most of which was in Canada, decreased slightly, but almost one-fifth larger than the 10-year average. Consumption of cotton other than American increased and was almost two-thirds larger than average. Increases in consumption of native cotton in Brazil, Mexico, and the less important cotton-producing countries of North and South America accounted for most of the increase in the consumption of cotton other than American last season in "other countries", as compared with the previous season and the 10-year average. And the upward trend in consumption of these growths seems likely to continue next season.

Price and Income

Cotton prices decline

The average price of 8.66 cents for Middling 7/8 inch cotton in the 10 designated markets for the 1937-38 season was 4.04 cents per pound lower than in the previous season and 3.76 cents below the average for the 10 years 1927-36. The weighted average price received by growers during the 1937-38 season of approximately 8.4 cents was 3.9 cents lower than for the previous season and 3.9 cents below the 1927-36 average. The decline in cotton prices was associated with a substantial increase in the supplies of both American and foreign-grown cottons, a severe recession in general business activity, a sharp reduction in cotton mill activity, and marked declines in prices of other raw materials. In the first quarter of the present season prices of Middling 7/8 inch cotton in the 10 markets averaged 0.69 cents lower than in the corresponding period a year earlier. In the first part of the 1938-39 season prices of futures contracts declined considerably in relation to prices of spot cotton, reflecting the strengthening influence of the Government loan on spot prices. Such an advance in the basis tends to increase the hazards of accumulating and carrying stocks of cotton.

Prices of Indian, Egyptian, and Brazilian cottons declined relatively less than prices of American in Liverpool and in 1937-38, were somewhat higher in relation to American than in the previous season, and considerably higher than the average for the 10 years 1927-36. During the first 3 months of the 1938-39 season Liverpool prices of American cotton averaged somewhat higher in relation to prices of Indian and Brazilian cottons than in the 1937-38 marketing season, but averaged somewhat lower in relation to prices of Egyptian Uppers. As prices of cotton of one growth increase or decrease in relation to prices of other growths, consumption of the relatively cheap cotton tends to increase in relation to the total consumed. Such shifts in consumption tend to readjust the comparative prices of the various growths in line with their difference in quality or spinning utility. Over periods of time long enough for adjustments to be made, price differentials depend on the differences in spinning utility and the relative quantities consumed depend on the relative quantities produced. These adjustments in prices to differences in spinning utility and in consumption to quantities produced apply not only to different growths insofar as they represent differences in quality but also to cotton of different qualities of the same growth.

Cotton: Spot price per pound of specified growths at Liverpool

Season beginning August 1	Actual prices of spot cotton				As a percentage of American middling		
	American:	Indian:	Egyptian:	Brazilian:			
	Middling:	average:	uppers:	Sao Paulo:	Indian:		
	7/8	of	F.G.F.:	fair	1/	Egyptian:	Brazilian:
	inch	3 types					
	Cents	Cents	Cents	Cents	Percent	Percent	Percent
Average 1927-28 :							
to 1936-37	14.50	10.88	17.12	14.03	78.3	117.9	97.7
1932-33	8.52	7.14	10.61	8.61	86.6	125.2	101.0
1933-34	12.47	8.87	13.77	12.28	74.0	110.8	93.3
1934-35	14.24	10.02	15.49	13.86	72.3	108.3	97.4
1935-36	13.50	10.36	15.49	13.45	79.5	114.8	99.8
1936-37	14.62	11.07	17.40	14.12	79.8	119.0	96.6
1937-38	10.31	8.02	13.10	10.18	83.9	126.7	98.7
1938-39 2/	9.87	7.22	12.53	9.50	78.4	127.0	96.3
1938-39 as a	Percent	Percent	Percent	Percent	Percent	Percent	Percent
percentage of :							
average	68.1	66.4	73.2	67.5	100.1	107.7	98.6
of 1937-38	95.7	90.0	95.6	93.3	93.4	100.2	97.6

Computed from reports of the Liverpool Cotton Association.

1/ As a percentage of American middling and low middling.

2/ Average prices for August, September, and October.

Farm returns from cotton decreases

Should cotton prices continue at about present levels, such prices together with the greatly reduced 1938 crop would result in the gross farm returns from cotton in 1938-39, including Government loans and payments with respect to cotton, being substantially less than in 1937-38, and considerably smaller than the 10-year average. Excluding Government payments but including returns from Government loans total farm returns from the disposition of the 1938 crop would be less than for any crop since 1932. Government loans to cooperating producers on the 1938 crop are provided on the basis of 8.30 cents per pound for Middling 7/8 inch cotton with specified premiums and discounts for cotton of other eligible grades and staple lengths. Should the proportion of the various grades and staple lengths for the 1938 crop be approximately the same as for the 1937 crop, the qualities specified as being eligible for the loan would include about 90 percent of the crop. The 1938 Agricultural Conservation payments are at the rate of 2.4 cents per pound on the normal yield of the cooperating producers 1938 cotton acreage allotment. In addition, price adjustment payments which will average about 2.9 cents per pound on 60 percent of each cooperating producers' 1937 cotton base production are being paid during the 1938-39 marketing season. Total Government payments with respect to cotton during the 1938-39 season will amount to approximately \$265,000,000 compared with \$72,000,000 last season and the previous record payments of \$130,000,000.

Cotton Outlook

With an increase of about 53 percent in the size of the United States crop, gross returns to farmers from cotton and cottonseed in the 1937-38 marketing season were slightly larger than in the previous season, despite the decrease in prices, and about the same as the average for the 10 years 1927-36. The combined returns to cotton growers from cotton and cottonseed, together with Government payments with respect to cotton in 1937-38 was slightly less than in the previous season, more than twice as large as in 1932-33 and about 9 percent larger than the average for the 10 years 1927-36. When adjusted for changes in prices of things farmers buy, gross returns from cotton and cottonseed in 1937-38, including Government payments, was about 3 percent larger than that of the previous season and almost 10 percent above the 10-year average.

Cotton: Domestic prices and returns, specified periods

Season beginning Aug. 1	: Spot prices of lint		Gross returns during marketing season				
	: Weighted average received by producers	: Average for 10 desig- nated markets	: Cotton lint	: Cotton- seed	: Gov- ernment pay- ments 1/	: Total, including Government payments Adjusted to Actual: the 1910-14 level of prices paid by farmers	
	: Cents per pound	: Cents per pound	: Million dollars	: Million dollars	: Million dollars	: Million dollars	: Million dollars
Average	:	:	:	:	:	:	:
1927-28 to	:	:	:	:	:	:	:
1936-37	: 12.3	: 12.42	: 803.6	: 103.2	: ----	: 906.8	: 715.0
1933-34	: 10.2	: 10.81	: 630.0	: 48.5	: 179.7	: 852.2	: 727.3
1934-35	: 12.4	: 12.36	: 629.1	: 105.9	: 115.8	: 850.3	: 675.2
1935-36	: 11.1	: 11.55	: 590.2	: 105.0	: 160.2	: 855.4	: 701.2
1936-37	: 12.3	: 12.70	: 764.4	: 141.3	: 86.4	: 992.1	: 763.1
1937-38 2/	: 8.4	: 8.66	: 795.0	: 123.0	: 72.1	: 990.1	: 785.8
	: Percent	: Percent	: Percent	: Percent	: Percent	: Percent	: Percent
1937-38 as	:	:	:	:	:	:	:
percentage	:	:	:	:	:	:	:
of average	: 68.3	: 69.7	: 98.9	: 119.2	: ---	: 109.2	: 109.9
of 1936-37	: 68.3	: 68.2	: 104.0	: 87.0	: 83.4	: 99.8	: 103.0

1/ Payments with respect to cotton.

2/ Preliminary.

Staple Situation

The domestic supply of American Upland cotton of staples 7/8 inch and shorter for the 1938-39 season apparently will be considerably less than in the previous season but somewhat larger than the average for the 10 years 1928-37. (The only 10-year period for which such data are available). In addition, the total supplies of Indian and Chinese cottons for the 1938-39 season are expected to be somewhat less than in the previous season, with the result that the total

Cotton Outlook

world supplies of cotton with staples 7/8 inch and shorter in 1938-39 probably will be considerably smaller than for the previous season and somewhat smaller than the 10-year average.

Cotton: Domestic supply 1/ by staple lengths of American Upland

Year beginning Aug. 1	Staple length (inches)							
	Shorter:	7/8	15/16	1	1-1/16	1-1/8	1-3/16	
	than	and	and	and	and	and	and	
	7/8	29/32	31/32	1-1/32	1-3/32	1-5/32	longer	
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	bales	bales	bales	bales	bales	bales	bales	bales
Average 1928-29								
to 1937-38	1,787	6,802	4,803	3,074	1,482	958	287	
1933-34	723	6,990	6,197	3,795	1,492	1,204	320	
1934-35	1,017	6,017	4,168	2,894	1,503	1,233	278	
1935-36	1,843	6,004	4,434	2,679	1,399	906	264	
1936-37	1,713	5,432	3,876	3,464	1,780	923	266	
1937-38	2,441	6,835	5,898	4,186	1,934	1,106	218	
1938-39 <u>2/</u>	1,921	6,048	6,188	4,932	3,096	1,086	302	
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1938-39 as								
percentage								
of average	107.5	88.9	128.8	160.4	208.9	113.3	105.2	
of 1937-38	78.7	88.5	104.9	117.8	160.1	98.2	138.5	

1/ Carry-over plus estimated production.

2/ Preliminary estimate, based on information available early in November.

The indicated domestic supply of American Upland cotton with staples 15/16 inch to 1-3/32 inches for the 1938-39 season showed a substantial increase over that of the previous season and is about 52 percent larger than the 10-year average. The increase in indicated supply of medium staple American Upland cotton for the 1938-39 season is expected to be supplemented by increases in supplies of Brazilian, and other foreign grown cottons of medium staple lengths, with the result that the total world supply of these lengths is expected to be substantially larger in 1938-39 than for any other year of record.

The indicated 1938-39 domestic supply of American cotton with staples 1-1/8 inches and longer is slightly larger than in the previous season and somewhat larger than the 10-year average. This increase in supply of long-staple American cotton, with prospects of some decrease in supplies of Egyptian cotton, is expected to give a world total supply of these lengths for the 1938-39 season considerably smaller than in 1937-38 and about the same as average.

Discounts for 13/16 inch staple early in the 1938-39 season were somewhat less than a year ago but were about 63 percent larger than the average for the 10 years 1927-36 despite the substantially reduced price level. Prices of Indian relative to American cotton at Liverpool were somewhat higher early in the 1938-39 season than in the previous season but were about the same as the 10-year average. The relatively large world total supplies of short staples is conducive to a continuation of relatively wide discounts for short staples throughout most of the current season.

Cotton Outlook

Premiums for staples 15/16 inch to 1-1/16 inches, inclusive, continued to decrease with the decline in cotton prices and early in the 1938-39 season averaged 21 percent smaller than in the previous season and 33 percent smaller than the 1927-36 average. Early in the 1938-39 season prices of Brazilian Sao Paulo Fair relative to American Middling in Liverpool were somewhat lower than in the previous season and slightly lower than the 10-year average.

Premiums for staples 1-1/8 inches and longer were well maintained despite the decline in cotton prices and early in the 1938-39 season averaged somewhat greater than during the 10 years 1927-36. If the rate of general industrial production and payrolls increase as now seems probable, any improvements in the demand for fine clothing and for industrial goods requiring long-staple cotton, as a result of these increases, would be favorable to maintaining relatively high premiums for the longer stapled cotton during the 1938-39 season despite increased competition of rayon.

Cotton: Staple premiums and discounts from prices of 7/8 inch

Year beginning Aug. 1	Discount Prices:		Premiums 3/					
	: for	: of Mid.:	15/16	1	1-1/16	1-1/8	1-3/16	1-1/4
	: 13/16 1/	: 7/8 2/						
	: Cents	Cents	Cents	Cents	Cents	Cents	Cents	Cents
Av. 1927-28 :								
to 1936-37 :	0.60	12.42	0.38	.88	1.38	2.01	3.02	5.52
1933-34 .....	.23	10.81	.22	.62	1.10	1.55	2.69	5.12
1934-35 .....	.36	12.36	.32	.81	1.15	1.40	2.36	4.79
1935-36 .....	.39	11.55	.36	.85	1.21	1.68	2.51	4.60
1936-37 .....	.84	12.70	.67	1.36	2.00	3.36	4.34	5.54
1937-38	1.03	8.66	.39	.73	1.13	2.43	3.95	5.48
1938-39 4/..	.98	8.34	.30	.56	.92	2.09	4.02	5.66
	: Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1938-39 as :								
percentage: :								
of average ...	163.3	67.1	78.9	63.6	66.7	104.0	127.8	104.3
of 1937-38 ...	95.1	96.3	76.9	76.7	81.4	86.0	97.7	105.1

1/ Average discount at Houston, Galveston, and New Orleans prior to season 1937-38. Beginning 1937-38, ten-market average used.

2/ Ten-market average.

3/ Average premiums at Memphis.

4/ Average for August, September and October.

The relatively wide premiums and discounts for staples in central markets along with the premiums and discounts provided in the 1938 Government loan to growers, developments in connection with a classification service to growers in communities organized for quality improvement, and increased available supplies of planting seed of improved longer stapled varieties are favorable to further improvements in the staple length of American cotton in 1939.

THE COTTONSEED OUTLOOK FOR 1939

Summary

The United States supply of cottonseed for the 1938-39 season is now (late November) expected to be about 5.8 million tons, which is about one-third less than the record supply of the previous season and 4 percent less than the average for the 10 years, 1927-28 to 1936-37.

Oil mill stocks of cottonseed at the beginning of the season were at record levels but these larger stocks will be much more than offset by the sharp reduction in the size of the 1938 cotton crop. Total stocks of cottonseed oil and of linters and mill stocks of other cottonseed products on August 1 were also at exceptionally high levels but production during the marketing season will probably be some 30 to 35 percent smaller than during the preceding season. Since stocks of all cottonseed products, except linters, on August 1 were a comparatively small percentage of probable production, the supplies of these products for the current season will also be very materially smaller than the record supplies of 1937-38.

On the other hand, the indicated supply of feed grains which materially affects the price of cottonseed cake and meal and hulls is 6 percent larger than in 1937-38 and 13 percent larger than the 10 year average. Furthermore, the indications are that the domestic supply of fats and oils other than cottonseed oil for the 12 months ending July 31, 1939, may be somewhat larger than in the preceding 12 months.

The larger supplies of the important competitive products and the lower level of general demand conditions largely account for the fact that current prices of cottonseed and cottonseed products are only slightly higher to considerably lower than last season, despite the materially smaller supply of most of these commodities for the current season. It is expected that the consumption of cottonseed products during the 1938-39 season will be considerably larger than production with a consequent reduction in stocks on August 1, 1939.

Cottonseed Oil

The domestic supply of cottonseed oil (exclusive of imported cottonseed oil), the principal product of cottonseed (which on the average represents about one-half of the total value of all raw cottonseed products), for the 1938-39 season as now estimated is 22 percent smaller than the record supply of the preceding season and slightly smaller than the average for the 10-year period 1927-28 to 1936-37. This decrease might have been considerably greater except for the fact that August 1 stocks were considerably larger than a year earlier and the fourth largest in history. Despite the decrease in the indicated United States supply of cottonseed oil, prices of cottonseed oil in the early part of the current season were only slightly higher than the average for the preceding season. Prices of lard, an important competitor of cottonseed oil, however, averaged 15 percent lower in August and September 1938 than during the 12 months ended July 1938. The commercial supply of lard for the 12 months ending July 1939 is now tentatively estimated to be about 8-1/2 percent larger than in the preceding 12 months and the largest in 5 years.

Cottonseed Outlook

Supply and price of cottonseed and specified fats and oils in the United States

Season beginning August 1	Cottonseed		Cottonseed		Lard		Corn, soybean, peanut : coconut and palm oil:		
	Weighted:		Price		Price		Production	Stocks:	Available
	Supply:	average:	Supply	of	Supply	of	plus	July	supply
	1/	farm	2/	prime	3/	refined	net	1	
	price		summer			Chicago	imports:		
			yellow:						
Average	1,000	Dollars	Million	Cents	Million	Dols. per	Million	Million	Million
1927-28 to	tons	per ton	pounds	per lb.	pounds	100 lbs.	pounds	pounds	pounds
1936-37	:5,977	25.69	1,909.4	7.95	1,541.8	10.95	1,096.3	288.0	1,384.7
1932-33	:6,084	10.35	2,150.9	4.32	1,784.6	6.30	926.4	330.1	1,256.5
1933-34	:6,027	14.21	2,081.3	4.92	1,734.2	6.97	1,118.1	286.0	1,404.7
1934-35	:4,505	34.79	1,849.2	9.60	1,070.9	13.20	1,005.1	333.6	1,338.1
1935-36	:4,819	31.19	1,670.3	9.82	890.1	13.36	1,411.0	324.4	1,735.4
1936-37	:5,533	33.27	1,726.0	10.42	995.5	13.07	1,408.2	362.5	1,770.7
1937-38	:8,468	19.50	2,451.4	7.78	1,088.0	10.58	1,475.7	356.3	1,832.0
1938-39 4/	:5,719	21.65	1,900.0	7.83	1,180.0	8.86		501.6	
1938-39 as per-	Percent:	Percent:	Percent:	Percent:	Percent:	Percent:	Percent:	Percent:	Percent:
centage:	:	:	:	:	:	:	:	:	:
of average	: 95.7	84.3	99.5	98.5	76.5	80.4		174.2	
of 1937-38	: 67.5	111.0	77.5	100.6	108.5	83.2		140.8	

- 1/ Mill stocks on August 1 plus production. 2/ Total stocks on August 1 plus production. 3/ Stocks on August 1 plus production under Federal Inspection. 4/ Preliminary estimates of supply. Average prices for August, September, and October.

Total domestic stocks on June 30, 1938 of five of the principal vegetable oils which compete more directly with cottonseed oil were about 41 percent larger than a year earlier and 74 percent larger than the 10-year average. The stock situation, together with very rough estimates of probable production and imports during the current cotton-marketing year, indicates that the competition from these oils may be as great or greater than during the 1937-38 season.

Domestic disappearance of cottonseed oil for the 1938-39 season in all probability will be materially less than the record disappearance of the previous season, but seems likely to exceed production by a substantial amount. Stocks of cottonseed oil on August 1, 1939, therefore, should be considerably below those of August 1 this year.

Cake and Meal and Hulls

Conditions in late November indicate that the supply of both cottonseed hulls and cottonseed cake and meal in 1938-39 will be roughly one-fourth less than in 1937-38 and 6 and 1 percent, respectively, smaller than the average for the 10-year period ending with 1936-37. Mill stocks of cake and meal at the beginning of the season were the largest on record and stocks of hulls were the third largest on

record. Such stocks of these products, however, were still only 10 or 11 percent as large as the prospective production during the current season.

Average prices of cottonseed hulls during the first 3 months of the season were approximately 1 percent lower than the average for the 12 months ended July 1938 and nearly one-third lower than the 10-year average. Prices of 41 percent protein meal were slightly lower than the average for the past season and one-fourth lower than the average for the 10-year period. In addition to the price-depressing effect of the lower level of general domestic demand conditions, United States supplies of feed grains are now expected to be about 6 percent larger than in 1937-38, one-eighth larger than average, and the largest in 6 years.

Supply of feed grains, and cottonseed hulls, meal, and linters in the United States.

	: U.S. :	Hulls	: Cake and Meal	: Linters,	F.O.B. Mill Points			
Season	: supply :			: Price of:				
beginning	: of feed:	Supply	: Price :	: meal-41%:	Supply :		Average price of	
August 1	: grains :	2/	: at :	Supply	: protein :	3/		
	: 1/ :	: Atlanta:	2/	: at :			No. 2	No. 6
	: :	: :	: :	: Memphis :				
	: Million	1,000	Dollars	1,000	Dollars	1,000	Cents	Cents
Average	: tons	tons	per ton	tons	per ton	tons	per lb.	per lb.
1927-28 to :								
1936-37	: 93.3	1,306	10.16	2,153	29.06	1,290	4.87	2.68
1932-33	: 122.6	1,475	7.17	2,208	15.80	1,367	2.43	1.03
1933-34	: 100.2	1,180	11.62	2,049	21.71	1,245	5.13	3.27
1934-35	: 65.9	944	12.24	1,739	32.31	1,149	5.75	4.05
1935-36	: 96.9	1,064	10.04	1,936	22.40	1,171	5.49	3.44
1936-37	: 71.2	1,168	11.43	2,097	34.34	1,393	5.00	3.12
1937-38	: 104.3	1,663	7.20	2,872	22.36	1,834	3.57	1.63
1938-39 4/	: 109.4	1,226	7.12	2,128	21.32	1,845	3.45	1.41
1938-39 as :	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
percentage:								
of average:	111.3	93.9	70.1	98.6	73.4	143.0	70.8	52.6
of 1937-38:	104.9	73.5	98.9	74.1	95.3	100.6	96.6	86.5

- 1/ Stocks on June 1, July 1, or October 1 (depending upon the kind of grain) plus production. 2/ Mill stocks on hand August 1 plus production.
3/ Total stocks on August 1 plus production. 4/ Preliminary estimate of supply. Prices are for August and September.

Linters

The 1938-39 production of linters may be about one-third less than in the preceding season. But with the August 1, 1938 United States carry-over of linters approximately two and one-third times as large as a year earlier, the indicated domestic supply for the current season is about the same as the record supply of the previous season. In comparison with the 10-year average, the indicated 1938-39 supply of linters represents a 43 percent increase. The average prices of the better qualities of linters in the first quarter of the current season were very little lower than the average for the 1937-38 season but the prices of the lower qualities were materially lower, Grade No. 6 averaging 14 percent lower.